

Statement of the Honorable Rahm Emanuel
Subcommittee on Capital Markets, Insurance
and Government Sponsored Enterprises
November 4, 2003

“Mutual Funds: Who’s Looking Out For Investors?”

- Mr. Chairman, thank you for holding this important hearing. I appreciate that our witnesses, including New York Attorney General Eliot Spitzer, SEC Enforcement Director Stephen Cutler, and former SEC Chairman Arthur Levitt, have taken the time to be here today.
- It’s important to emphasize that by and large, mutual funds remain a safe and good place for middle class investors to put their money. There are many highly skilled, honest fund managers who put their clients’ interests first every time.
- But for too long, some mutual funds have pursued a “Heads I Win, Tails You Lose” strategy, favoring a few top clients and lining their own pockets at the expense of millions of “mom and pop” investors.
- If this scandal isn’t an argument against privatizing Social Security, I don’t know what is. These scandals have shown it’s not worth exposing our seniors’ Social Security benefits to the risk of misconduct or mismanagement. Dozens of pension funds have pulled their money out of mutual funds to protect their retirees, and it would be wrong to subject social security benefits to the vagaries of the capital markets.
- The problems with mutual funds have become systemic and endemic. As a result, the mutual fund industry has forfeited the right to self-regulation. We need legislation and SEC rule-making to clean up the system and restore the core principle of making investors the highest priority.
- These abuses go to the heart of mutual funds’ fiduciary duties. Unlike in the instance of the corporate scandals that led to Sarbanes-Oxley, *in these cases*, some mutual funds have literally stolen directly from the pockets of middle class investors.
- In too many fund companies, managers have violated their most important fiduciary duties. Basic principles of honesty and fair dealing have been replaced by a “Managers Win, Investors Lose” mentality.
- 50% of all U.S. households invest in mutual funds---families saving for college tuition and retirement, students opening their first investment accounts, senior citizens relying on income to provide for their living needs. For the \$90 billion in fees and overhead that middle class mutual fund investors pay every year, they certainly deserve better.

- Our number one priority is to restore the highest standards of integrity to this industry—the core principles that are part of every statute, every prospectus and every piece of marketing material these firms send out.
- Because the industry has shown it's incapable of effectively policing itself, Congress needs to pass tough new rules to eliminate abuses and to protect investors. These remedies must address corporate governance, trading, and disclosure of information issues.
- I look forward to working with the SEC and with my colleagues in Congress to pass legislation that will ensure mutual funds protect the interests of investors and shareholders, not those of company insiders and “special” clients.

Thank you, Mr. Chairman. I yield back.